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Treasury Department
Bureau of Accounts - Fiscal Service

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REPORT ON FISCAL INTERNAL AUDITING

IN THE TREASURY DEPARTMENT

FOR THE FISCAL YEAR

ENDED JUNE 30, 1958

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Prepared by the Bureau of Accounts
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REPORT ON FISCAL INTERNAL AUDITING
IN THE TREASURY DEPARTMENT
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ENDED JUNE 30, 1958

This is a report of the activities and results of internal auditing in the Treasury Department during fiscal year 1958 and its status as of June 30, 1958. The report includes audit results pertaining to operational as well as fiscal matters where handled by the same staff. Since the comparable report for fiscal year 1957 explained the existing internal audit organization and program in each of the Treasury bureaus, and these have not changed materially, this report will be limited to general comments and highlights of the program.

BASIS FOR INTERNAL AUDIT

Treasury Department Circular No. 924, issued June 24, 1953, prescribed, for the first time, a departmental internal audit program. Under the circular, the scope and intensity of internal audit are within the discretion of each bureau head subject to certain minimum standards with respect to the internal audit of fiscal activities. General administration of the departmental program as it relates to fiscal matters is vested in the Commissioner of Accounts, pursuant to Treasury Department Order No. 164, dated December 12, 1952.

EFFECT OF CHANGING CONDITIONS ON INTERNAL AUDIT

Although internal audit of departmental scope was instituted for compliance with Section 113a of the Budget and Accounting Procedures Act of 1950, which imposed similar responsibilities on all departments and agencies, the internal audit function has increased in importance in recent years due to certain changing conditions. The Treasury Department, more than most departments, requires protective features in its systems of internal control because of the nature of its functions. Some of the more important ones are collecting and protecting the revenue; printing, issuing, and redeeming the Nation's currency; controlling the public debt; maintaining the official accounts and preparing the official reports of the Government; investing large Government trust funds; and maintaining custody of the cash assets of the Government. Whereas, in years gone by, audit staffs on a smaller scale were provided in the Treasury for internal audit work, considerable reliance was then placed on other means of verification. It was not uncommon to find duplicate or more sets of the same accounts kept by different groups of employees or duplicate checking operations performed on the same set of documents. A few examples will illustrate the point. Only a few years ago, appropriation control accounts were maintained in four places, namely: the Division of Bookkeeping and Warrants of the Bureau of Accounts, the Regional Disbursing Offices, the General Accounting Office, and the administrative agencies. Today, there are only two sets of appropriation accounts—the official accounts maintained in the Division of Central Accounts of the Bureau of Accounts and those in the administrative agencies needed for budgetary control. Similarly, the Division of Public Debt Accounts and Audit, which prior to 1953 had certain departmental audit responsibilities,

maintained for many years an independent set of control records over the manufacture, custody, issue, and redemption of paper currency. Today, internal auditors of the Bureau of Engraving and Printing and other bureaus perform the verification work on the basis of audits performed at the site of the various operations without keeping a separate set of records for their purpose. Prior to passage of the Customs Simplification Act of 1953, the comptrollers of customs not only performed the 100% verification of tentative liquidations of entries but also reviewed centrally practically all related documents and fiscal records of collectors of customs. Although there were attached to the comptrollers' offices a limited number of field auditors to perform routine fiscal audits of collectors' offices, their authorized scope of coverage was limited to a very small segment of fiscal operations, and did not include the Washington headquarters office. Today, the document audit is reduced to a test basis, i.e., random and selective sampling of Collectors' entry documents, and modern audit techniques are applied to many other important facets of customs fiscal administration.

These examples are only illustrative of many significant changes in the fiscal operations of the Treasury, a great deal of which has culminated since passage of the Budget and Accounting Procedures Act of 1950. Internal audit in the Department has, in a sense, supplanted some of the layers of administrative checking. In addition, however, internal audit has changed substantially in scope in line with generally accepted audit practices. Whereas, in years past, it was concerned mostly with ascertaining whether assets and security items were accounted for, the function today embraces, in addition, the appraisal of the soundness, adequacy and application of accounting, financial and other controls, the determination of the extent of compliance with established plans, policies, and procedures and the ascertainment of the reliability of accounting and other data produced. These objectives are carried out in varying degrees in the internal audit programs in the various Treasury bureaus.

A change in the character of General Accounting Office audits in both technique and scope during the past few years has also had an impact on the departmental internal audit program. The "comprehensive type" of external audit has been instituted by the General Accounting Office in practically all of the Treasury bureaus. This type of audit has for its purpose determining how well the agency or activity is discharging its financial responsibilities. The term "financial responsibilities," as defined by the General Accounting Office, is considerably broad in scope and includes "the expenditure of funds and the utilization of property and personnel in the furtherance only of authorized programs." In effectuating its audits, the General Accounting Office is required by the Budget and Accounting Procedures Act of 1950 to give due consideration, among other things, to the effectiveness of systems of internal audit. Such consideration is being given to the audit work being performed by the internal auditors in the Treasury Department. Accordingly, the detailed audit work of the General Accounting Office is being reduced as the internal audit programs in the Treasury bureaus are being expanded.